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~~OFFICE REPORTS AND ESTIMATES~~
TRANSPORTATION GROUP

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Weekly Intelligence Summary No. 66

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The Soviet objective of reducing Satellite dependence upon the West for specialized railway equipment is again discernible in a convention recently concluded by delegates from sleeping car companies and railway administrations of Rumania, Bulgaria, Hungary, Poland, Yugoslavia, and Czechoslovakia. (Item No. 1, B)

The shortage of flanges for locomotives in the Soviet Zone Germany has become so desperate that the Soviet Military Administration has reportedly approved the return of a dismantled German rolling mill. (Item No. 2, B)

US refusal to grant a waiver necessary for conversion at Trieste of the ex-Navy vessel FENCER will probably put an end to the negotiations of Lloyd Triestino for purchase of the vessel. (Item No. 3, C)

Expansion of the Soviet merchant fleet in the Far East is indicated by the fact that more Soviet ships are now en route from the Black Sea to the Maritime Provinces than at any time in recent years. (Item No. 4, B)

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The recent conclusion of bilateral air agreements between Canada and the US, and between Egypt and Italy, may improve the prospects for a multilateral agreement at next year's Assembly of the International Civil Aviation Organization. (Item No. 6, B)

Signature on 3 June of the new US-Canadian bilateral air agreement embodying "Fifth Freedom" rights for both countries has opened the way for renewed Dutch attempts to secure additional traffic rights through Canada to the US and beyond. (Item No. 7, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The Soviet objective of reducing Satellite dependence upon the West for specialized railway equipment is again discernible in a convention recently concluded by delegates from sleeping car companies and railway administrations of Rumania, Bulgaria, Hungary, Poland, Yugoslavia, and Czechoslovakia (See TG Weekly Nos. 39, 41, and 57). By stipulating the conditions under which sleeping cars of one Satellite country can operate in some cases through other Satellite areas, the basis has been established for the progressive exclusion of the Western-controlled Wagons Lits Company from these areas as additional Satellite equipment becomes available. It has been announced that Rumanian (CFR), Polish (ORBIS), and Yugoslav (JDX) sleeping car units have been in circulation under the new agreement since 15 May 1949. Bulgarian, Hungarian, and Czechoslovak participation, on the other hand, is still in the organizational stage. The agreement contains several operating limitations. It is stipulated, for example, that only CFR (Rumanian) and ORBIS (Polish) cars are to circulate in Rumania, with CFR units operating between Bucharest and Warsaw via Budapest and Prague and ORBIS units between Bucharest and Berlin. Separate bilateral conventions are to be signed between the respective national administrations covering the movement of dining cars on international routes. (Secret)
2. The shortage of flanges for locomotives in the Soviet Zone Germany has become so desperate that the Soviet Military Administration has reportedly approved the return of a dismantled German rolling mill. Although the mill was shipped to the USSR in 1946, it apparently was never assembled or put into operation. After installation on the premises of one of the former plants of the Mitteldeutsche Stahlwerke in Groeditz (northwest of Dresden), the rolling mill is scheduled to deliver the first flanges during June. (Confidential)

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3. The US Political Adviser in Trieste has been instructed by the Department of State to inform General Airey, Commander US-UK Zone, FTT, that the US will not grant the necessary waiver to permit conversion of the SS FENCER at Trieste (See TG Weekly No. 63). As the purchase contract was conditional on obtaining the US waiver, Lloyd Triestino, the prospective purchaser, will probably now drop the matter. (Secret)

4. Expansion of the Soviet merchant fleet in the Far East is indicated by the fact that more Soviet ships are now en route from the Black Sea to the Maritime Provinces than at any time in recent years. Shortage of shipping in the Far East has forced the USSR recently to charter foreign vessels. The present redistribution of the fleet may also reflect a determination to reduce Soviet dependence on foreign shipping and apprehension that foreign vessels may be more difficult to charter as a result of political repercussions from the Communist conquest of China. In either case, the USSR considers its objective sufficiently urgent to justify the inevitable deterioration of the transportation situation in the Black Sea which will result from this decision. (Secret)

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CIVIL AVIATION

6. The recent conclusion of bilateral air agreements between Canada and the US, and between Egypt and Italy, may improve the prospects for a multilateral agreement at next year's Assembly of the International Civil Aviation Organization (ICAO). The most controversial issue connected with a multilateral agreement has been that of so-called "Fifth Freedom" rights (to embark and disembark in the territory of the other contracting state revenue traffic destined to or originating in third states).

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7. Signature on 3 June of the new US-Canadian bilateral air agreement embodying "Fifth Freedom" rights for both countries (see item 6) has opened the way for renewed Dutch attempts to secure additional traffic rights through Canada to the US and beyond.

Implementation of the "Fifth Freedom" provisions in the Dutch-Canadian bilateral of 2 June 1948 is understood to have been inapplicable until Canada obtained such rights in the US. (The agreement, however, specified that "Fifth Freedom" privileges "shall not be exercised until, with regard to each route, an exchange of notes between the contracting parties stipulating the date from which those rights will be effective has taken place.")

Continued Dutch approaches (hitherto unsuccessful) to the US and Mexico may also be expected in view of their aspirations for: (1) an extension of Amsterdam-Montreal or Toronto services to Chicago; (2) traffic rights at New York on the Amsterdam-Gander-Curacao route; and (3) traffic rights in Mexico and on the US west coast, linking their West Indies services to Batavia on a round-the-world route. (Restricted)

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